

Arizona State Treasurer's Office

1700 West Washington St.
First Floor
Phoenix, Arizona 85007



Request for Proposal # 15-01
Investment Management Services
Question & Answer

Sealed Written Proposals will be
Accepted until:
June 1st, 2015
2:00 p.m. (MST)

Jeff DeWit, State Treasurer

RFP Question & Answer

***Arizona State Treasurer's Office(ASTO)**

Emailed Questions

1. Are you open to hiring an active equity investment strategy for investment pools 201, 203, 204?
 - a. No
2. Are you open to hiring an enhanced equity index strategy for investment pools 201,203, 204?
 - a. No
3. Would you be able to clarify for us what is meant by working side by side with internal management?
 - a. We will not be physically working side by side, but in adjunct with the same Arizona State Statutes and Investment Policy that we are required to follow
4. What is the purpose of this RFP, has there been a change in investment philosophy within the Arizona State Treasurer's Office?
 - a. This is not a change in our investment policy, but by statute we must put out an RFP every 3 years.
5. Can you disclose the fees being paid to U.S. Bancorp Asset Management currently managing \$400 million of the fixed-income assets?
 - a. Disclosing this information is not a part of the RFP process
6. Will fundamental index products be considered for the equity portion of the RFP or will only cap-weighted index funds be allowed?
 - a. No
7. Do the investment guidelines allow for investment in U.S. Investment-Grade Corporate bonds, Agency Mortgage-Backed Securities, Asset-Backed Securities, and/or Commercial Mortgage-Backed Securities?
 - a. Yes
8. If an investment in one, or all, of these types of securities, that were previously mentioned in the last question are allowed, are there specific credit quality restraints that apply?
 - a. Yes, refer to the RFP
9. If spread product is not permitted, is there a specific tracking error budget/range relative to the Citi BIG Index that is targeted/permitted?
 - a. No
10. Are all securities in the Citi BIG index eligible?
 - a. Yes

11. Is the Treasurer's Office able to provide total returns (i.e. 1-year, 3-year, etc.) for each of the pools and their respective benchmarks?
 - a. You are able to find any returns on the Arizona State Treasurer's website through our Board of investment reports located under the "Investments" tab.
12. Is Arizona State Treasurer's Office considering passive index strategies or are active strategies being considered for this RFP?
 - a. The Arizona State Treasurer's Office currently manages our equity pools passively, and our fixed income pools are managed actively. We will not be making any changes.
13. Are benchmarks limited to those listed on Exhibit F or would alternative benchmarks be considered.
 - a. The benchmarks are limited to what is on Exhibit F.
14. This inquiry relates to your Request for Proposal #15-01 Investment Management Services, page 13, paragraph 16, the Indemnification Clause.

Could we include the following modification to the Indemnification Clause in paragraph 16:

In no event will the Investment Manager be held liable for (i) any indirect, special, incidental, consequential, exemplary or punitive damages, even if advised of the possibility thereof, or (ii) any loss of any kind caused, directly or indirectly, by any government restrictions, exchange or market actions or rulings, suspension of trading, terrorist acts, failure of utility or similar services, adverse weather or other events of nature and any other conditions beyond the Investment Manager's control (each, a "Force Majeure Event").

- a. The ASTO would invite you to respond to the RFP and include any exceptions to the RFP language within your response.
15. **Under Investment Policy Statement, Section III. Investment Objectives on page 2 #1 paragraph 2:** Are there any liquidity requirements associated with the Fixed Income Pools?
 - a. There are liquidity requirements and you can use the same cash equivalent requirements that the current portfolio manager is using. You can find this on the ASTO website under the Board of Investment Reports.
16. **Under Investment Policy Statement, Section III. Investment Objectives on page 3 #4 Portfolio Management:** Is the AZ Treasury willing to provide daily portfolio cash flows over the past three years for fixed income portfolios? Will the portfolio manager(s) be provided with advanced notice regarding redemptions and purchases?
 - a. Any information that we have regarding cash flow will come directly from our monthly Board of Investment Reports on the ASTO website. If it is a portion of the fund the ASTO would take the liquidity of the upfront movement of a fund. The external firm would be secondary in liquidity to the internally managed portion. However if we do have an externally managed fund that has 100% of the assets then we would negotiate liquidity needs and terms of advanced notice.

17. **Under Investment Policy Statement, Section IV. Permitted Investment Instruments on page 4 #6:** Commercial paper must be rated by at least two nationally recognized statistical rating organizations (NRSO's). Does this mean that "A1 or A1+" are acceptable or are purchases limited to the two highest of A1+/P1/F1?
- a. Commercial Paper must be rated by two of the three NRSRO'S and must hold the two highest ratings from that NRSRO. Moody's- P-1, P-2; Fitch- F1+, F1; S&P-A1+, A1
18. **Under Investment Policy Statement, Section IV. Permitted Investment Instruments on page 4 #9:** Bonds, debentures and notes issued by entities which are United States dollar denominated and carry as a minimum, when purchased, a Baa (Investment Grade) or better rating of Moody's Investors Service or a BBB (Investment Grade) or better rating of Standard and Poor's Rating Service or their successors. Would BBB- be included as a permissible credit rating?
- a. Yes
19. **Under Investment Policy Statement, Section VI. Fund Descriptions and Maturity Limitations on page 6 & 7:** Do the fixed income pools have any weighted average life (WAL) limitations?
- a. Yes, all WAL limitations are listed in the Investment Policy.
20. **Under Investment Policy Statement, Section VI. Fund Descriptions and Maturity Limitations on page 6 & 7:** Do the fixed income pools have any sector limitations?
- a. No
21. **Under Investment Policy Statement, Section VI. Fund Descriptions and Maturity Limitations on page 6, Pool 5 – LGIP:** Would you consider a WAM of 60 days?
- a. Yes, WAM is 90 days or less.
22. **Under Investment Policy Statement, Section VIII Investment Operations on page 11 #4 Brokers/Dealers:** Can you please provide additional detail concerning broker/dealer registration requirements? Specifically, are there additional local registration requirements if a broker/dealer is duly registered under the Securities and Exchange Act of 1934?
- a. Not applicable for external managers. This part of the Investment Policy is for the ASTO internal managers.
23. **Under Investment Policy Statement, Section VIII Investment Options on page 10 # 3 Safekeeping and Custody:** Securities have to settle delivery vs. payment except for tri-party, does this cover securities settling through Depository Trust and Clearing?
- a. Yes
24. **Under Investment Management Services, Section Special Terms and Conditions, Contract 1.1 on page 10:** Would the firm be consulted before a written contract clarification is issued or could a clarification be issued unilaterally?
- a. Yes we could discuss contract changes unilaterally. Please list any contract concerns with your proposal

25. **Under Investment Management Services, Section Special Terms and Conditions on pages 10-17 :** Are any of stated Terms and Conditions negotiable including those dealing with Contract Interpretation and Operation, Insurance Requirements, Indemnification and Risk and Liability? Especially those provisions that don't seem applicable to Investment Management Services.
 - a. Yes, please list any contract concerns in your proposal.
26. **Under Investment Management Services, Exhibit A, Section General Requirement on page i # 2:** Pool # 5 is currently rated AAAf/ S1 + by S&P, whose financial responsibility is it to have the pool rated?
 - a. If Pool 5 is partially managed by and external firm it will be the responsibility of Arizona to pay for the rating. If 100% of Pool 5 is externally managed we will negotiate the terms of who is responsible for the rating.
27. **Under Investment Management Services, Exhibit F on page xi & xii:** What is the legal structure of the investment pools and are all assets held in the U.S.? For example are the pools investment trusts organized under Arizona state law?
 - a. Assets are held in the U.S. The pools are set up under State Law, as well as the Investment Policy and approved by the State Board of Investments.
28. **Under Investment Management Services, Exhibit F on page xi & xii:** Do the pools qualify as a "qualified institutional buyer" within the meaning of Rule 144A under the Securities Act of 1933?
 - a. Yes

Conference Call Questions

1. **Under Special Instructions to Offer, 2. Evaluation Criteria on Page 3, 2.6.3.:** Is this requirement at a strategy level, an aggregate, is it at a client level or all assets under management?
 - a. This is at firm level, but also this will be heavily weighed on the portfolio manager's experience.
 - b. \$10 billion minimum assets under management with at least \$1 billion that are from clients from either a State, County, City or Town Treasurer's Office.
2. **Under Special Instructions to Offer, 2. Evaluation Criteria on Page 3, 2.6.2.:** Would that be in aggregate that they manage or oversees?
 - a. Yes
3. **Under Special Terms and Conditions, 17. Insurance Requirements on Page 15, 5:** Is the insurance requirement for the Blanket Fidelity Bond Fund for \$35 million a hard number?
 - a. This will be negotiable

4. **Under Exhibits C Product Information & D Performance, Page v and viii respectively:** Any advice or best way to introduce new products?
 - a. We are looking to hire an adjunct for the ASTO, so we are looking to hire someone who manages very close to the ASTO portfolio manager. Look online under our Board of Investment Reports to assess how we manage our portfolio. We will not be considering new products under the RFP.
5. How would you like us, as a firm, to pick and choose the different pools best suited for our specific firm?
 - a. All firms are welcome to bid on one or multiple pools, depending on what the firm feels comfortable with.
6. Would you include sovereign wealth funds in the government portion in the definition of government?
 - a. The goal is to manage the same way as the current portfolio manager at the ASTO. Looking for firms with experience in State, County, City or Town governments with short term cash needs like the ASTO does.
7. What is the ASTO quarterly investment plan, and what does it cover in detail?
 - a. Please see quarterly attachment
8. Are there any limitations in terms of what percent of the portfolio that may be invested in by sector or firm?
 - a. We have no limitations on the sector basis, but we do have a 5% max of any one firm. Please see the Investment Policy Statement in Exhibit E.
9. Is there a possibility that these pools, that are managed externally, not get split up?
and
If the ASTO accepts these bids will we outsource funds to more than one external manager?
 - a. We are unsure of how we would want to allocate any externally managed funds. This is why the ASTO is letting the process determine what we do next depending on bids.
10. Has the ASTO determined a level of assets that would be externally managed?
 - a. No
11. On Pool 5 in terms of the WAM duration of 90 day, will that be shortened up to 60 days or stay the same?
 - a. The ASTO will not be changing the 90 day WAM unless the new 2(a)7 rules from GASB makes changes to what they are currently doing. We are waiting for GASB comments, if they require reporting of that fund as a \$1 NAV fund to be 60 days then we will reduce it accordingly.
12. Do external management have to only conduct business with financial institutions that are licensed, as required by law, to do business in Arizona?

a. No this is for our internal management only.

13. Does the ASTO expect to direct trades for our external managers?

a. No we do not expect to direct trades, but are required on rare occasions to instruct us to liquidate an asset upon Board of Investment recommendation. The Board of Investment would require the external manager to liquidate funds as well.

14. Would we need to have the number of full time managers and resources that would only be working on the ASTO account?

a. No we do not expect firms to have a dedicated team that only works on our account. We would like the names and contact information for the people that would be managing our account.

15. Has the Arizona Laws changed so that the ASTO could invest in institutional comingled funds, is this correct?

a. Yes